

Allendale Public Schools

**Financial Report
with Supplemental Information
June 30, 2006**

Allendale Public Schools

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Independent Auditor's Report

To the Board of Education
Allendale Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allendale Public Schools (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allendale Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Allendale Public Schools as of June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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To the Board of Education
Allendale Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Allendale Public Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional information and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 1, 2006 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 1, 2006

Allendale Public Schools

Management's Discussion and Analysis

This section of Allendale Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Allendale Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets (deficit) and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets (deficit) - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets (deficit) and the statement of activities) and governmental funds in a reconciliation.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I

	Governmental Activities	
	2006	2005
	(in millions)	
Assets		
Current and other assets	\$ 5.6	\$ 4.9
Capital assets	<u>43.6</u>	<u>44.1</u>
Total assets	49.2	49.0
Liabilities		
Current liabilities	6.3	6.3
Long-term liabilities	<u>53.4</u>	<u>52.2</u>
Total liabilities	<u>59.7</u>	<u>58.5</u>
Net Assets (Deficit)		
Invested in property and equipment - Net of related debt	(11.9)	(10.0)
Restricted	0.1	-
Unrestricted	<u>1.3</u>	<u>0.5</u>
Total deficit	<u><u>\$ (10.5)</u></u>	<u><u>\$ (9.5)</u></u>

Allendale Public Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets of the School District's governmental activities is discussed below (see Table 2). The School District's capital assets, net of related debt totaling (\$11.9 million), compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. The School District's net assets (deficit) was (\$10.5 million) at June 30, 2006. It is important to note that if the School District did not participate in the School Revolving Fund (SRF), the School District would have a positive net asset amount (see Note 7). SRF participation allows districts with low taxable values to lessen the immediate property tax burden to local residents for needed school facilities by levying a minimum of 7 mills and borrowing the remaining funds required for debt service from the SRF. Repayment of amounts borrowed, together with accrued interest, will occur at a future time when taxable values are high enough to allow the School District to meet all debt service requirements by levying below 7 mills. The School District would continue to levy at least 7 mills, however, until the SRF is repaid. This will occur at some future date. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$1.3 million, was unrestricted.

The \$1.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005 (see Table 2):

TABLE 2

	Governmental Activities	
	2006	2005
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.5	\$ 0.4
Operating grants	2.0	1.9
General revenue:		
Property taxes	3.9	3.6
State foundation allowance	13.1	12.6
Other	0.2	0.3
Total revenue	19.7	18.8

Allendale Public Schools

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2006	2005
	(in millions)	
Functions/Program Expenses		
Instruction	\$ 10.2	\$ 11.3
Support services	6.0	5.9
Food services	0.5	0.5
Athletics	0.3	0.3
Community services	0.1	-
Interest on long-term debt	2.2	2.1
Bond issuance costs	0.6	-
Depreciation (unallocated)	0.8	0.8
Total functions/program expenses	20.7	20.9
Decrease in Net Assets	\$ (1.0)	\$ (2.1)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$20.7 million. Certain activities were partially funded from those who benefited from the programs (\$.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.9 million in taxes, \$13.1 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$1.0 million. Key reasons for the change in net assets were unallocated depreciation of \$.8 million and a deficiency of revenue and other financing sources over expenditures and other uses of \$1.2 million. It is also important to note when discussing this deficiency that bond proceeds are not listed as a financing source. The School District's participation in the SRF, for reasons discussed earlier, resulted in its borrowing of an additional \$1.08 million (exclusive of accrued and capitalized interest) to assist in the payment of bonded debt. This borrowing was in lieu of a duty to otherwise levy a higher property tax on the property of School District residents to meet payments required on bonded debt. As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of approximately \$579,000, which is an increase of approximately \$128,000 from last year. The primary reasons for the increase are as follows:

General Fund

In the General Fund, our principal operating fund, the fund balance increased by approximately \$29,000 to approximately \$362,000. The change is due mainly to reductions in operating expenditures achieved through lowering of staffing levels in several areas and savings gleaned in heating costs from a milder than anticipated winter. General Fund fund balance is available to fund costs related to allowable school operating purposes.

Special Revenue Funds

Our Special Revenue Funds showed an increase in fund balance of approximately \$55,000. The change is due primarily to decreased costs of operation in the food service area coupled with an increase in lunch prices. The last lunch price increase occurred in 1996.

Debt Service Funds

Combined, the Debt Service Funds fund balances increased to approximately \$127,000, a positive change of approximately \$130,000 from the prior year. The increase was due primarily to the recovery (through SRF borrowing) of funds reserved at June 30, 2005 to correct an overpayment of tax to the School District's Debt Service Fund from collecting authorities in the amount of \$74,000. The remaining increase in fund balance comes from the late collection of delinquent 2005 real property tax paid from the county's delinquent revolving tax fund. Millage rates remained steady. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

Capital Projects Funds

Capital Projects Funds fund balances decreased as the School District continued with the capital construction projects approved by voters in September 2002, completing the finishing touches for a new auditorium addition to its high school building. Use of Capital Projects Fund investments to pay for these voter-approved projects comprises the entire explanation for the decrease in combined fund balance in the governmental funds.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted June 5, 2006. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the School District had \$43,653,716 (net of accumulated depreciation of \$8,138,693) invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment.

	<u>2006</u>	<u>2005</u>
Land	\$ 1,112,506	\$ 1,112,506
Land improvements	3,894,336	3,894,336
Buildings and building improvements	42,982,381	42,908,738
Buses and other vehicles	1,657,660	1,300,714
Furniture and equipment	<u>2,145,526</u>	<u>2,138,206</u>
Total capital assets	<u>\$ 51,792,409</u>	<u>\$ 51,354,500</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$41,474,204 in bonds outstanding versus \$41,822,555 in the previous year. Those bonds consisted of the following:

	2006	2005
General obligation bonds	\$ 41,490,000	\$ 41,835,000
Less unamortized bond issuance costs	(105,592)	(109,602)
Durant Non-Plaintiff Bond	89,796	97,157
Total bonds payable	<u>\$ 41,474,204</u>	<u>\$ 41,822,555</u>

The School District's general obligation bond rating continues to be the same as that of the State of Michigan because the School District issues "qualified debt," i.e., debt backed by the State of Michigan. Such obligations are not subject to the debt limit of 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$566,687 for bus purchases is significantly below this statutorily imposed limit.

The school bond loan payable outstanding at the end of the year was \$13,020,177 and \$11,447,920 at June 30, 2006 and 2005, respectively.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's annual fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The initial budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2006. Approximately 82 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be somewhat above the estimates used in creating the 2006-2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Allendale Public Schools

Management's Discussion and Analysis (Continued)

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference held in May 2006, the State estimates funds are sufficient to fund the appropriation. Continuing pressures on the State's economy make uncertain the findings of the next revenue-estimating conference scheduled for January 2007. If revenue estimates needed to fund appropriations for school districts for the 2006-2007 school year are revised downward to a level that is insufficient to meet present appropriations, a proration of state aid will occur. The impact on the School District if such a proration should occur is unknown at this time.

At June 30, 2006, the School District had no unsettled contract or pending negotiations with any of its unionized employee groups. The School District's contract with its unionized teachers expired on June 30, 2006. The School District anticipates entering into negotiations with its teachers for a contract for the next school year.

Allendale Public Schools

Statement of Net Assets (Deficit) June 30, 2006

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 1,790,768
Receivables - Net (Note 4)	2,741,360
Inventories	21,605
Prepaid costs	1,041,034
Restricted assets (Note 1)	17,388
Capital assets - Net (Note 5)	<u>43,653,716</u>
Total assets	49,265,871
Liabilities	
Accounts payable	225,978
Accrued payroll and other liabilities	2,174,695
Retainage payable	8,896
State aid anticipation note (Note 10)	2,250,000
Long-term liabilities (Note 7):	
Due within one year	1,680,921
Due in more than one year	<u>53,380,148</u>
Total liabilities	<u>59,720,638</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(11,942,978)
Restricted:	
Debt service	127,225
Capital projects	1,546
Unrestricted	<u>1,359,440</u>
Total deficit	<u><u>\$ (10,454,767)</u></u>

Allendale Public Schools

Statement of Activities Year Ended June 30, 2006

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 10,158,275	\$ -	\$ 1,788,547	\$ (8,369,728)
Support services	5,985,018	-	-	(5,985,018)
Food services	457,932	285,353	200,333	27,754
Athletics	277,252	55,113	-	(222,139)
Community services	100,577	124,879	-	24,302
Interest on long-term debt	2,200,910	-	-	(2,200,910)
Intergovernmental transfers	34,386	-	-	(34,386)
Bond issuance costs	543,323	-	-	(543,323)
Depreciation (unallocated)	838,373	-	-	(838,373)
Total primary government - Governmental activities	<u>\$ 20,596,046</u>	<u>\$ 465,345</u>	<u>\$ 1,988,880</u>	(18,141,821)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,563,618
Property taxes, levied for debt services				2,367,859
State aid not restricted to specific purposes				13,056,279
Interest and investment earnings				98,411
Other				58,960
Total general revenues				<u>17,145,127</u>
Change in Net Assets (Deficit)				(996,694)
Net Assets (Deficit) - Beginning of year				<u>(9,458,073)</u>
Net Assets (Deficit) - End of year				<u>\$ (10,454,767)</u>

Allendale Public Schools

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 1,575,899	\$ 232,257	\$ 1,808,156
Receivables - Net (Note 4)	2,689,527	51,833	2,741,360
Due from other funds (Note 6)	26,122	344	26,466
Inventories	-	21,605	21,605
Prepaid costs	198,319	-	198,319
Total assets	<u>\$ 4,489,867</u>	<u>\$ 306,039</u>	<u>\$ 4,795,906</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 228,246	\$ -	\$ 228,246
Accrued payroll	1,040,308	4,474	1,044,782
Accrued benefits	279,930	-	279,930
Accrued liabilities	307,068	-	307,068
Retainage payable	-	8,896	8,896
State aid anticipation note	2,250,000	-	2,250,000
Due to other funds (Note 6)	344	23,854	24,198
Deferred revenue (Note 4)	22,417	51,383	73,800
Total liabilities	4,128,313	88,607	4,216,920
Fund Balances			
Reserved:			
Encumbrances	123,188	-	123,188
Inventories	-	21,605	21,605
Prepays	198,319	-	198,319
Capital projects	-	8,836	8,836
Debt service	-	127,225	127,225
Unreserved - Undesignated, reported in:			
General Fund	40,047	-	40,047
Special Revenue Funds	-	59,766	59,766
Total fund balances	361,554	217,432	578,986
Total liabilities and fund balances	<u>\$ 4,489,867</u>	<u>\$ 306,039</u>	<u>\$ 4,795,906</u>

Allendale Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2006

Fund Balance - Total Governmental Funds	\$	578,986
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of capital assets	\$ 51,792,409	
Accumulated depreciation	<u>(8,138,693)</u>	43,653,716

Other long-term assets not available to pay current period expenditures therefore deferred in the governmental funds	73,800
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Prepaid bond issuance costs that are amortized over the life of the bonds and deferred in the governmental funds	105,592
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds - Bonds payable included premium/discount	(55,166,661)
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Other assets not capitalized in the governmental funds (deferred charges, net of amortization)	842,715
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Accrued interest payable is not included as a liability in governmental funds	<u>(542,915)</u>
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Net Assets - Governmental Activities		<u>\$ (10,454,767)</u>
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Allendale Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Local sources	\$ 1,732,142	\$ 2,821,828	\$ 4,553,970
State sources	13,329,286	10,679	13,339,965
Federal sources	591,597	200,333	791,930
Interdistrict sources	913,264	-	913,264
	<hr/>	<hr/>	<hr/>
Total revenue	16,566,289	3,032,840	19,599,129
Expenditures			
Current:			
Instruction	10,158,275	-	10,158,275
Support services	6,085,595	735,184	6,820,779
Debt service:			
Principal	69,356	1,642,361	1,711,717
Interest	11,560	2,218,539	2,230,099
Other	-	429,711	429,711
Capital outlay	356,946	80,963	437,909
Intergovernmental transfers	34,386	-	34,386
	<hr/>	<hr/>	<hr/>
Total expenditures	16,716,118	5,106,758	21,822,876
Excess of Expenditures Over Revenue	(149,829)	(2,073,918)	(2,223,747)
Other Financing Sources (Uses)			
Payments to refunded bond escrow agent	-	(14,417,864)	(14,417,864)
Transfers in (Note 6)	-	178,082	178,082
Transfers out (Note 6)	(178,082)	-	(178,082)
Long-term debt issued	356,946	16,412,257	16,769,203
	<hr/>	<hr/>	<hr/>
Total other financing sources	178,864	2,172,475	2,351,339
Net Change in Fund Balances	29,035	98,557	127,592
Fund Balances - Beginning of year	332,519	118,875	451,394
	<hr/>	<hr/>	<hr/>
Fund Balances - End of year	<u><u>\$ 361,554</u></u>	<u><u>\$ 217,432</u></u>	<u><u>\$ 578,986</u></u>

Allendale Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 127,592
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (838,373)	
Capitalized capital outlay - Net of disposals and adjustments	<u>437,909</u>	(400,464)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	25,373
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Bond proceeds are not reported as financing sources on the statement of activities	(16,769,203)
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Amortization of bond escrow deposit	(4,010)
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Deferred charges reported as expenditures in the governmental funds are capitalized in the statement of activities - Net of amortization	842,715
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	29,189
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>15,152,114</u>
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Change in Net Assets of Governmental Activities	<u>\$ (996,694)</u>
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Allendale Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2006

	Student Activities <u>Agency Fund</u>
Assets - Cash and investments	<u>\$ 163,988</u>
Liabilities	
Due to student groups	\$ 161,720
Due to other funds	<u>2,268</u>
 Total liabilities	 <u>\$ 163,988</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Allendale Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental fund:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

Debt Service Funds - The Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on the bond issues.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

2002 School Building and Site Bonds Capital Projects Fund - The 2002 School Building and Site Bonds Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 and a special one-time levy for mills related to the 2002 bond issue took place in December. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	7-10 years
Furniture and other equipment	5-20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function (object) level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2002 School Building and Site Bonds Capital Projects Fund. The project for which the 2002 School Building and Site Bonds were issued was considered complete on June 30, 2005 and the cumulative expenditures recognized for the construction period were \$27,683,355.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated 12 financial institutions for the deposits of its funds, but may use another financial institution provided that notification is made to the Board of Education.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$1,827,564 had \$1,526,360 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by diversifying the investment portfolio so that impact of potential losses from any one type of security or issuer will be minimized. The School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Bank investment pool	\$ 126,777	Various	AAAm	S&P
Michigan Liquid Asset Fund	<u>17,387</u>	Various	AAAm	S&P
Total investments	<u>\$ 144,164</u>			

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Taxes	\$ 88,769	\$ 51,833	\$ 140,602
Accounts	165,791	-	165,791
Intergovernmental	<u>2,434,967</u>	<u>-</u>	<u>2,434,967</u>
Net receivables	<u>\$ 2,689,527</u>	<u>\$ 51,833</u>	<u>\$ 2,741,360</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the deferred revenue associated with unavailable delinquent property taxes was \$73,800.

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 1,112,506	\$ -	\$ -	\$ 1,112,506
Capital assets being depreciated:				
Land improvements	3,894,336	-	-	3,894,336
Building and building improvements	42,908,738	73,643	-	42,982,381
Buses and other vehicles	1,300,714	356,946	-	1,657,660
Furniture and equipment	<u>2,138,206</u>	<u>7,320</u>	<u>-</u>	<u>2,145,526</u>
Subtotal	50,241,994	437,909	-	50,679,903

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Accumulated depreciation:				
Land improvements	\$ 317,202	\$ -	\$ -	\$ 317,202
Building and building improvements	5,081,964	581,109	-	5,663,073
Buses and other vehicles	948,072	57,906	-	1,005,978
Furniture and equipment	953,082	199,358	-	1,152,440
Subtotal	7,300,320	838,373	-	8,138,693
Net capital assets being depreciated	42,941,674	(400,464)	-	42,541,210
Net governmental capital assets	<u>\$ 44,054,180</u>	<u>\$ (400,464)</u>	<u>\$ -</u>	<u>\$ 43,653,716</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiduciary Fund	
General Fund	\$ -	\$ 23,854	\$ 2,268	\$ 26,122
Nonmajor governmental funds	344	-	-	344
Total	<u>\$ 344</u>	<u>\$ 23,854</u>	<u>\$ 2,268</u>	<u>\$ 26,466</u>

Interfund balances from the General Fund represent Section 31D money owed to the Food Services Fund. Interfund balances to the General Fund represent retroactive pay amounts. Interfund balances to the Fiduciary Fund represent transportation fees to be reimbursed.

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out - General Fund
Transfers in - Special Revenue Funds:	
Food Services Fund	\$ 23,097
Athletics Fund	<u>154,985</u>
Total	<u>\$ 178,082</u>

Transfers subsidized operations in Special Revenue Funds.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 41,835,000	\$ 14,840,000	\$ 15,185,000	\$ 41,490,000	\$ 1,505,000
Less unamortized bond issuance costs	(109,602)		(4,010)	(105,592)	-
Durant Non-Plaintiff Bond	<u>97,157</u>	<u>-</u>	<u>7,361</u>	<u>89,796</u>	<u>35,176</u>
Total bonds payable	41,822,555	14,840,000	15,188,351	41,474,204	1,540,176
Installment purchase agreement	279,097	356,946	69,355	566,688	140,745
Notes - School bond loan	<u>11,447,920</u>	<u>1,572,257</u>	<u>-</u>	<u>13,020,177</u>	<u>-</u>
Total governmental activities	<u>\$ 53,549,572</u>	<u>\$ 16,769,203</u>	<u>\$ 15,257,706</u>	<u>\$ 55,061,069</u>	<u>\$ 1,680,921</u>

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 1,680,921	\$ 1,901,217	\$ 3,582,138
2008	1,693,824	1,826,809	3,520,633
2009	1,686,593	1,760,496	3,447,089
2010	1,709,545	1,692,218	3,401,763
2011	1,715,678	1,621,787	3,337,465
2012-2016	8,719,923	6,992,834	15,712,757
2017-2021	9,980,000	4,713,234	14,693,234
2022-2026	8,250,000	2,473,176	10,723,176
2027-2031	5,620,000	949,815	6,569,815
2032	1,090,000	47,413	1,137,413
Total	<u>\$ 42,146,484</u>	<u>\$ 23,978,999</u>	<u>\$ 66,125,483</u>

Governmental Activities

General obligation bonds consist of the following:

\$13,075,000 2002 School Building and Site Bonds due in annual installments of \$675,000 to \$1,075,000 through May 1, 2026; interest at 3.000% to 5.125%	\$ 12,400,000
\$6,795,000 2001 Refunding Bonds due in annual installments of \$700,000 to \$770,000 through May 1, 2013; interest at 4.00% to 4.65%	5,275,000
\$200,000 1998 School Building and Site Bonds due in annual installments of \$50,000 through May 1, 2009; interest at 4.625%	150,000
\$9,275,000 1997 Refunding Bonds due in annual installments of \$35,000 to \$820,000 through May 1, 2024; interest at 4.700% to 5.125%	9,050,000
\$7,340,000 2005 Refunding Bonds due in annual installments of \$30,000 to \$1,185,000 through May 1, 2027; interest at 3.00% to 4.30%	7,190,000

Allendale Public Schools

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

\$7,500,000 2006 Refunding Bonds due in annual installments of \$15,000 to \$1,120,000 through May 1, 2032; interest at 3.50% to 4.35% \$ 7,425,000

Total bonded debt \$ 41,490,000

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources. The Durant Non-Plaintiff Bond is comprised of the following issue:

- \$152,078 School Improvement Bond Issue, Series 1998, due in annual installments of \$8,079 to \$35,176 through May 15, 2013; interest at 4.8 percent

Notes consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
11/21/02	\$ 113,087	11/20/07	5.4%	\$ 3,664	\$ 45,236
10/17/03	112,242	11/01/08	3.7%	4,998	67,346
10/22/04	121,451	10/22/09	3.5%	8,380	97,160
9/22/05	<u>356,946</u>	9/22/10	3.8%	<u>41,013</u>	<u>356,946</u>
Total	<u>\$ 703,726</u>			<u>\$ 58,055</u>	<u>\$ 566,688</u>

Other governmental activities long-term obligations include the following:

School bond loan \$ 13,020,177

Note 7 - Long-term Debt (Continued)

School Bond Loan - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be determined by the State Administrative Board. Interest, ranging from 3.125 percent to 4.685 percent, has been assessed at three different times throughout the year ended June 30, 2006. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The School District is required to levy 7 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Advance and Current Refundings

During the year, the School District issued \$7,340,000 in general obligation bonds with an average interest rate of 3.97 percent. The proceeds of these bonds were used to advance refund \$6,700,000 of outstanding general obligation bonds with an average interest rate of 5.07 percent. The net proceeds of \$7,168,943 (after payment of \$101,457 in underwriting fees, insurance, and other issuance costs) was used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$492,035, which represents an economic gain of \$345,890.

During the year, the School District issued \$7,500,000 in general obligation bonds with an average interest rate of 4.25 percent. The proceeds of these bonds were used to advance refund \$6,850,000 of outstanding general obligation bonds with an average interest rate of 5.125 percent. The net proceeds of \$7,248,921 (after payment of \$103,329 in underwriting fees, insurance, and other issuance costs) was used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$521,394, which represents an economic gain of \$323,507.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for teachers' medical benefits claims and participates in the SET-SEG risk pool for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent and 16.34 percent of the covered payroll to the plan for the periods from July 1, 2005 through September 30, 2005 and October 1, 2005 through June 30, 2006, respectively. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$1,552,261, \$1,407,459, and \$1,247,533, respectively.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Note 10 - State Aid Anticipation Note

On August 19, 2005, Allendale Public Schools borrowed \$2,250,000 in a state aid anticipation note. The note bears interest at 2.92 percent and is due on August 19, 2006. At June 30, 2006, Allendale Public Schools had accrued interest of \$56,758 on this note.

Note 11 - Subsequent Events

On August 18, 2006, the School District borrowed \$1,950,000 at 3.68 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2007.

Required Supplemental Information

Allendale Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 1,762,636	\$ 1,749,410	\$ 1,732,142	\$ (17,268)
State sources	13,598,829	13,335,410	13,329,286	(6,124)
Federal sources	552,892	572,106	591,597	19,491
Interdistrict sources	935,919	900,204	913,264	13,060
Total revenue	16,850,276	16,557,130	16,566,289	9,159
Expenditures				
Evergreen Elementary School	1,631,369	1,835,416	1,770,700	(64,716)
Springview Elementary School	1,760,934	1,611,866	1,649,580	37,714
Middle school	2,355,468	2,354,036	2,374,423	20,387
High school	2,477,673	2,497,427	2,491,567	(5,860)
New Options Alternative High School	266,428	205,283	206,006	723
Michigan school readiness program preschool	31,592	47,500	36,973	(10,527)
Summer school programs, driver education programs	43,772	40,787	34,942	(5,845)
Special education	1,290,579	1,321,005	1,303,940	(17,065)
Compensatory education and esl	300,743	289,863	283,580	(6,283)
Leisure enrichment programs	21,250	9,110	7,598	(1,512)
Pupil counseling	200,896	191,492	193,205	1,713
Health services	7,434	31,028	29,767	(1,261)
Psychological services	95,292	89,948	89,571	(377)
Speech pathology and audiology services	111,531	114,242	114,482	240
Social work services	199,214	186,079	189,228	3,149
Student safety - Lunch, playground, and crossing guard monitors	54,608	33,698	30,260	(3,438)
Improvement of instruction - Curriculum	32,467	33,038	30,950	(2,088)
Educational media services	226,310	242,198	234,014	(8,184)
Educational television	1,050	-	-	-
Technology-assisted instruction	4,000	-	-	-
Supervision and direction of instructional staff	214,848	213,332	199,562	(13,770)
Other instruction staff services - Theatre	61,668	60,946	58,911	(2,035)
Board of Education	79,350	51,350	48,085	(3,265)
Executive administration	252,499	248,284	250,610	2,326
Office of the principal	1,134,099	1,100,463	1,118,369	17,906
Fiscal services	282,382	292,838	291,630	(1,208)
Other business services	87,491	109,851	109,209	(642)
Operations and maintenance services	2,188,737	1,964,133	1,936,200	(27,933)
Security services	27,997	8,225	8,186	(39)
Pupil transportation services	1,010,650	1,061,817	1,033,733	(28,084)
Staff/Personnel services	37,717	30,522	28,615	(1,907)
Support services technology	347,475	369,354	335,176	(34,178)
Custody and care of children	43,741	111,339	111,744	405
Payments to other public schools in Michigan	42,500	37,750	34,386	(3,364)
Debt service - Current portion due	80,941	81,141	80,916	(225)
Total expenditures	17,004,705	16,875,361	16,716,118	(159,243)

Allendale Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Other Financing Sources (Uses)				
Transfers out	\$ (200,607)	\$ (195,575)	\$ (178,082)	\$ 17,493
Proceeds from debt issuance	356,946	356,946	356,946	-
Total other financing sources	156,339	161,371	178,864	17,493
Net Change in Fund Balance	1,910	(156,860)	29,035	185,895
Fund Balance - July 1, 2005	332,519	332,519	332,519	-
Fund Balance - June 30, 2006	\$ 334,429	\$ 175,659	\$ 361,554	\$ 185,895

Other Supplemental Information

Allendale Public Schools

	Special Revenue Funds		Debt Service Funds		
	Food		1992	1994	1997
	Services	Athletics	Issue	Issue	Issue
Assets					
Cash and investments	\$ 82,819	\$ 5,275	\$ -	\$ -	\$ 14,056
Receivables - Net - Taxes	-	-	2,128	22,494	12,155
Due from other funds	-	-	-	-	-
Inventories	21,605	-	-	-	-
Total assets	<u>\$ 104,424</u>	<u>\$ 5,275</u>	<u>\$ 2,128</u>	<u>\$ 22,494</u>	<u>\$ 26,211</u>
Liabilities and Fund Balances					
Liabilities					
Salaries and other accrued liabilities	\$ 4,474	\$ -	\$ -	\$ -	\$ -
Due to other funds	19,832	4,022	-	-	-
Retainage payable	-	-	-	-	-
Deferred revenue	-	-	2,128	22,494	12,155
Total liabilities	24,306	4,022	2,128	22,494	12,155
Fund Balances					
Reserved:					
Inventories	21,605	-	-	-	-
Debt service	-	-	-	-	14,056
Capital projects	-	-	-	-	-
Unreserved - Undesignated, reported in Special Revenue Funds	58,513	1,253	-	-	-
Total fund balances	80,118	1,253	-	-	14,056
Total liabilities and fund balances	<u>\$ 104,424</u>	<u>\$ 5,275</u>	<u>\$ 2,128</u>	<u>\$ 22,494</u>	<u>\$ 26,211</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Debt Service Funds							
1998 Issue	2001 Issue	2002 Issue	Durant Non- Plaintiff Issue	2005 Issue	2006 Issue	Capital Projects	Total
\$ 27,884	\$ 25,322	\$ 48,759	\$ -	\$ 2,868	\$ 7,886	\$ 17,388	\$ 232,257
3,507	8,861	2,688	-	-	-	-	51,833
-	-	-	-	-	-	344	344
-	-	-	-	-	-	-	21,605
\$ 31,391	\$ 34,183	\$ 51,447	\$ -	\$ 2,868	\$ 7,886	\$ 17,732	\$ 306,039
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,474
-	-	-	-	-	-	-	23,854
-	-	-	-	-	-	8,896	8,896
3,507	8,861	2,238	-	-	-	-	51,383
3,507	8,861	2,238	-	-	-	8,896	88,607
-	-	-	-	-	-	-	21,605
27,884	25,322	49,209	-	2,868	7,886	-	127,225
-	-	-	-	-	-	8,836	8,836
-	-	-	-	-	-	-	59,766
27,884	25,322	49,209	-	2,868	7,886	8,836	217,432
\$ 31,391	\$ 34,183	\$ 51,447	\$ -	\$ 2,868	\$ 7,886	\$ 17,732	\$ 306,039

Allendale Public Schools

	Special Revenue Funds		Debt Service Funds		
	Food Services	Athletics	1992 Issue	1994 Debt	1997 Debt
Revenue					
Local	\$ 288,718	\$ 122,798	\$ -	\$ -	\$ 348,685
State	-	-	-	-	-
Federal	200,333	-	-	-	-
Total revenue	489,051	122,798	-	-	348,685
Expenditures					
Current:					
Food services	457,932	-	-	-	-
Athletics	-	277,252	-	-	-
Debt service:					
Principal	-	-	-	-	30,000
Interest	-	-	-	-	465,984
Other expenditures	-	-	-	-	275
Capital outlay	-	-	-	-	-
Total expenditures	457,932	277,252	-	-	496,259
Excess of Revenue Over (Under)					
Expenditures	31,119	(154,454)	-	-	(147,574)
Other Financing Sources (Uses)					
Payments to refunded bond escrow agent	-	-	-	-	-
Transfers in	23,097	154,985	-	-	-
Long-term debt issued	-	-	-	-	161,667
Total other financing sources	23,097	154,985	-	-	161,667
Net Change in Fund Balances	54,216	531	-	-	14,093
Fund Balances - Beginning of year	25,902	722	3	-	(37)
Residual Equity Transfer	-	-	(3)	-	-
Fund Balances - End of year	<u>\$ 80,118</u>	<u>\$ 1,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,056</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

Debt Service Funds							
1998 Debt	2001 Debt	2002 Debt	2005 Debt	2006 Debt	Durant Non-Plaintiff Fund	Capital Projects Fund	Total
\$ 87,571	\$ 640,320	\$ 1,331,784	\$ 269	\$ 137	\$ -	\$ 1,546	\$ 2,821,828
-	-	-	-	-	10,679	-	10,679
-	-	-	-	-	-	-	200,333
87,571	640,320	1,331,784	269	137	10,679	1,546	3,032,840
-	-	-	-	-	-	-	457,932
-	-	-	-	-	-	-	277,252
50,000	655,000	675,000	150,000	75,000	7,361	-	1,642,361
9,250	253,695	1,230,383	176,732	79,177	3,318	-	2,218,539
275	275	250	171,057	251,079	-	6,500	429,711
-	-	-	-	-	-	80,963	80,963
59,525	908,970	1,905,633	497,789	405,256	10,679	87,463	5,106,758
28,046	(268,650)	(573,849)	(497,520)	(405,119)	-	(85,917)	(2,073,918)
-	-	-	(7,168,943)	(7,248,921)	-	-	(14,417,864)
-	-	-	-	-	-	-	178,082
-	294,707	624,626	7,669,331	7,661,926	-	-	16,412,257
-	294,707	624,626	500,388	413,005	-	-	2,172,475
28,046	26,057	50,777	2,868	7,886	-	(85,917)	98,557
(162)	(735)	(1,571)	-	-	-	94,753	118,875
-	-	3	-	-	-	-	-
<u>\$ 27,884</u>	<u>\$ 25,322</u>	<u>\$ 49,209</u>	<u>\$ 2,868</u>	<u>\$ 7,886</u>	<u>\$ -</u>	<u>\$ 8,836</u>	<u>\$ 217,432</u>

Allendale Public Schools

June 30	Durant Principal	2006 Issue Principal	2005 Issue Principal	2002 Issue Principal	2001 Issue Principal
2007	\$ 35,176	\$ 15,000	\$ 30,000	\$ 675,000	\$ 700,000
2008	8,079	15,000	30,000	675,000	740,000
2009	8,464	15,000	30,000	675,000	755,000
2010	8,866	15,000	80,000	700,000	770,000
2011	9,288	20,000	105,000	700,000	770,000
2012	9,730	20,000	105,000	700,000	770,000
2013	10,193	35,000	110,000	700,000	770,000
2014	-	20,000	110,000	775,000	-
2015	-	20,000	110,000	850,000	-
2016	-	20,000	110,000	935,000	-
2017	-	25,000	115,000	1,000,000	-
2018	-	25,000	115,000	1,075,000	-
2019	-	25,000	110,000	1,075,000	-
2020	-	25,000	1,185,000	-	-
2021	-	30,000	1,175,000	-	-
2022	-	30,000	1,165,000	-	-
2023	-	30,000	1,155,000	-	-
2024	-	35,000	1,145,000	-	-
2025	-	35,000	70,000	1,075,000	-
2026	-	325,000	70,000	790,000	-
2027	-	1,110,000	65,000	-	-
2028	-	1,115,000	-	-	-
2029	-	1,120,000	-	-	-
2030	-	1,110,000	-	-	-
2031	-	1,100,000	-	-	-
2032	-	1,090,000	-	-	-
	\$ 89,796	\$ 7,425,000	\$ 7,190,000	\$ 12,400,000	\$ 5,275,000
Principal payments due	May 15	May 1	May 1	May 1	May 1
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.8%	3.50% to 4.35%	3.00% to 4.30%	3.000% to 5.125%	4.00% to 4.65%
Original issue	\$ 152,078	\$ 7,500,000	\$ 7,340,000	\$ 13,075,000	\$ 6,795,000

Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2006

1998 Issue Principal	1997 Issue Principal
\$ 50,000	\$ 35,000
50,000	35,000
50,000	35,000
-	40,000
-	40,000
-	40,000
-	45,000
-	820,000
-	820,000
-	815,000
-	810,000
-	805,000
-	800,000
-	795,000
-	790,000
-	780,000
-	775,000
-	770,000
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
\$ 150,000	\$ 9,050,000
May 1	May 1
May 1 and November 1	May 1 and November 1
4.625%	4.700% to 5.125%
\$ 200,000	\$ 9,275,000

Allendale Public Schools

**Federal Awards
Supplemental Information
June 30, 2006**

Allendale Public Schools

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Independent Auditor's Report

To the Board of Education
Allendale Public Schools

We have audited the financial statements that collectively comprise Allendale Public Schools' basic financial statements for the year ended June 30, 2006 and have issued our report thereon dated September 1, 2006. Those basic financial statements are the responsibility of the management of Allendale Public Schools. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Allendale Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 1, 2006

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Education
Allendale Public Schools

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Allendale Public Schools as of and for the year ended June 30, 2006, which collectively comprise Allendale Public Schools' basic financial statements, and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allendale Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allendale Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Allendale Public Schools

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 1, 2006

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

To the Board of Education
Allendale Public Schools

Compliance

We have audited the compliance of Allendale Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of Allendale Public Schools is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Allendale Public Schools' management. Our responsibility is to express an opinion on Allendale Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allendale Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Allendale Public Schools' compliance with those requirements.

In our opinion, Allendale Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item Finding 06-01.

To the Board of Education
Allendale Public Schools

Internal Control Over Compliance

The management of Allendale Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Allendale Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 1, 2006

Allendale Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
Clusters:								
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:								
National School Breakfast Program - 2005-2006	10.553	\$ 27,143	\$ -	\$ -	\$ -	\$ 27,143	\$ 27,143	\$ -
National School Lunch Program - 2005-2006	10.555	151,980	-	-	-	151,980	151,980	-
Total Child Nutrition Cluster		179,123	-	-	-	179,123	179,123	-
Special Education Cluster - U.S. Department of Education - Passed through the Ottawa Area ISD:								
IDEA:	84.027							
Project number 0405-050450		331,649	331,649	167,682	-	167,682	-	-
Project number 0506-060450		353,621	-	-	-	176,810	353,621	176,811
Total IDEA		685,270	331,649	167,682	-	344,492	353,621	176,811
Preschool Incentive:								
Project number 0405-050460	84.173	12,740	12,740	6,370	-	6,370	-	-
Project number 0506-060460		19,965	-	-	-	6,656	19,965	13,309
Total Preschool Incentive		32,705	12,740	6,370	-	13,026	19,965	13,309
Total Special Education Cluster		717,975	344,389	174,052	-	357,518	373,586	190,120

Allendale Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
Clusters (Continued):								
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Ottawa Area ISD - Medical Assistance Program (Medicaid, Title XIX):	93.778							
2004-2005		\$ 12,818	\$ 12,818	\$ 5,768	\$ -	\$ 5,768	\$ -	\$ -
2005-2006		22,365	-	-	-	22,365	22,365	-
Total Medicaid Assistance Program (Medicaid, Title XIX)		35,183	12,818	5,768	-	28,133	22,365	-
Other Federal Awards:								
U.S. Department of Education:								
Passed through the Michigan Department of Education:								
Title I - Project number 061530-0506	84.010	113,062	-	-	-	113,062	113,062	-
Title V LEA Allocation - Project number 060250-0506	84.298	850	-	-	-	850	850	-
Technology Literacy Challenge Grants - Project number 064290-0506	84.318	2,109	-	-	-	2,109	2,109	-
Improving Teacher Quality - Project number 060520-0506	84.367	58,533	-	-	-	58,533	58,533	-
Total noncluster programs passed through the Michigan Department of Education		174,554	-	-	-	174,554	174,554	-
Passed through the Ottawa Area ISD:								
Safe and Drug-Free Schools and Communities:								
Project number 0506-052860	84.186A	2,734	-	-	-	2,734	2,734	-
Project number 0506-062860		57	-	-	-	57	57	-
Total Safe and Drug-Free Schools and Communities		2,791	-	-	-	2,791	2,791	-

Allendale Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2006

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
Other Federal Awards (Continued):								
Passed through the Ottawa Area ISD (Continued):								
Transition Grant - Project number TS-060490	84.027A	\$ 1,038	\$ -	\$ -	\$ -	\$ 1,038	\$ 1,038	\$ -
Tech Prep - Project number 6014-2 063540	84.243A	163	-	-	-	163	163	-
Safe and Drug-Free Communities - 2005-2006	93.276	92	-	-	-	92	92	-
Building Restorative Communities - Project Number JJBRC-05-70001-2	16.540	178	-	-	-	178	178	-
Total noncluster programs passed through the Ottawa Area ISD		4,262	-	-	-	4,262	4,262	-
Passed through Zeeland Public Schools - English Language Acquisition (Title III) - Project Number 060580-0506	84.365A	10,505	-	-	-	10,505	10,505	-
Office for Domestic Preparedness - Passed through the Michigan Department of State Police - 2003 Homeland Security Grant Program, Part II Equipment, by MSP-EMD	97.004	6,325	-	-	-	6,325	6,325	-
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution:	10.550							
Entitlement commodities - 2005-2006		17,616	-	-	-	17,616	17,616	-
Bonus commodities - 2005-2006		3,594	-	-	-	3,594	3,594	-
Total Food Distribution		21,210	-	-	-	21,210	21,210	-
Total federal awards		<u>\$ 1,149,137</u>	<u>\$ 357,207</u>	<u>\$ 179,820</u>	<u>\$ -</u>	<u>\$ 781,630</u>	<u>\$ 791,930</u>	<u>\$ 190,120</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Allendale Public Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allendale Public Schools and is presented on the same basis of accounting as the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Allendale Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
84.027	Special Education Cluster - IDEA
84.173	Special Education Cluster - Preschool Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Allendale Public Schools

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
06-01	<p>Program Name - Special Education, IDEA, CFDA #84.027</p> <p>Pass-through Entity - U.S. Department of Education - Ottawa Area Intermediate School District - Award number 0506-060450</p> <p>Finding Type - Noncompliance condition</p> <p>Criteria - In accordance with OMB Circular A-87, Attachment B, if an employee is charged solely to one federal program, Allendale Public Schools (the "District") is required to obtain certification twice a year, signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.</p> <p>Condition - The District did not obtain certifications semiannually signed by the employee or supervisory official for employees charged solely to one federal program.</p> <p>Questioned Costs - None</p> <p>Context - The District did not have other documentation supporting the service was provided by the employee.</p> <p>Cause and Effect - Signed certifications are required as part of the documentation of the services provided by employees charged solely to one federal program.</p> <p>Recommendation - In addition to the documentation already maintained by the District, the District should implement procedures to identify those employees charged solely to one federal program and obtain semiannual certifications signed by the appropriate individual.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The District plans to obtain certifications for those employees charged solely to one federal program, signed by the appropriate employee or supervisory official, for the grant year ending September 30, 2006 and semiannually thereafter.</p>

September 1, 2006

To the Board of Education
Allendale Public Schools
6561 Lake Michigan Drive
Allendale, MI 49405

Dear Board Members:

We recently completed our audit of the basic financial statements of Allendale Public Schools (the "District") for the year ended June 30, 2006. As in past years, the audit process went well. We continue to be impressed by the efforts of the board and the administration to stretch limited resources in a way that maximizes the educational experience for all students in the District. As you are well aware, the District has been facing challenging financial times and the next couple of years appear to be even more challenging. We encourage you to continue to work with and support the administration in the difficult choices that must be made as you look ahead. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Fund Balance

We feel that it is important for the District to maintain an appropriate level of fund equity. We believe that the benefit of the District maintaining an appropriate amount of fund equity allows the District the ability to maintain its current level of programs, while being able to meet unforeseen circumstances, such as the implementation of state aid proration and continued uncertainties with funding provided by the State. This becomes especially important due to the funding caps imposed by school finance reform, increasing retirement and other costs, and cash flow needs due to the fact about 18 percent of the District's state aid is received after the school year has ended, as well as concerns over the financial health of the School Aid Fund in 2005-2006.

During the 2005-2006 school year, the District's General Fund revenues exceeded expenditures by approximately \$30,000. This resulted in reducing the General Fund equity to approximately \$362,000 at June 30, 2006. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2005 (excluding Detroit) is approximately 14.32 percent of expenditures. Fund equity of 5.5 percent of expenditures would approximately equal the District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The District's fund equity percentage is 2.16 percent and equals approximately one week of operation.

Clearly, as the District moves through 2006/2007, it will face unprecedented challenges in this area given the funding plan put in place by the State coupled with increasing fringe benefit costs.

State Aid Issues

During many of the past years, districts had the advantage of having a State Aid Act in place prior to the start of their new fiscal year. This is not the case for the fiscal year starting July 1, 2006. Both the House and the Senate have passed a version of the revisions to the State Aid Act. However, as of the time this is being written, nothing has been finalized pending resolution of the State's General Fund budget crisis. The conference committee and the governor will have to resolve the differences in an extremely difficult environment.

In August 2006, the governor signed the State Aid Act into law. Some highlights for fiscal year ending 2007 are as follows:

- **Foundation Allowance**

- The bill provides for a \$210 increase in the base foundation allowance.

- **New Categoricals**

- Enhancing equity by providing additional funds to low foundation districts. Payment will go to districts whose foundation allowance is below \$7,360. Districts will receive the lesser of \$23 per pupil or the amount that will bring their foundation up to the \$7,360 level.
- Declining enrollment - This will be paid to districts whose enrollment has declined in both 2006-2007 and 2005-2006, and would equal the district's foundation allowance multiplied by the difference between the district's three-year average pupil membership and the actual pupil membership. The allocation may be pro rated if funding proves insufficient.
- Middle school math - \$54 per pupil for 6th, 7th, and 8th graders in 2006-2007, with performance requirements for receiving the funds in future years.

- **Retirement Rate**

- The MPSERS retirement rate is 17.74 percent for 2007.

- **New Budgeting Requirement**

- A new section has been added to the proposed State Aid Act, Section 18(2), which states that within 30 days of adopting the annual budget, and any time the budget is revised, the district shall make it available on its website in a form and manner prescribed by the department. In the event a district does not have a website, they are to use the ISD website.

As always, final funding remains tentative, and there remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections.

Future MPSERS Contribution Rate

Several factors will be placing significant upward pressure on the MPSERS contribution rate in future years. Some of the more significant factors are as follows:

- The plan uses a “five-year smoothing” method to account for the annual change in the market value of the investment assets. This means the significant stock market losses of 2001 and 2002 will impact the contribution rate for several years.
- The plan treats the retiree health care costs on a “pay-as-you-go” basis. This means the annual significant rise in health care costs, including prescription drugs, impacts the contribution rate immediately.

The plan held the contribution rate below the calculated level during the past several years by using reserves. These reserves are now gone and the rate will automatically rise to reflect the lack of further subsidy.

The contribution rate for the MPSERS plan for the plan year ending September 30, 2007 is 17.74 percent. There is much speculation that this rate could go to 20 percent or more in the near future. A recent Senate fiscal agency analysis of the history of MPSERS rate increases ended with a prediction for 2006-2007 of \$1,040 cost per pupil, which is a 77 percent increase over fiscal year 1999-2000. An increase from 17.74 percent to 20.00 percent would cost the District approximately \$23,000 for each \$1,000,000 of payroll!

It is absolutely essential that the District plan for this increase and budget accordingly.

Federal Program Payroll Documentation

During our testing of federal programs, it was noted that certifications were missing for individuals who were charged to one federal cost objective. Under federal regulations, the District is required to have a system to track the allocation of payroll costs (salary and hourly) to individual federal programs. This system must capture and allocate actual usage. Budget plans, while helpful to demonstrate District intent, do not provide sufficient proof of the cost allocation. The regulations essentially say the following:

- If the employee spends 100 percent of their time serving one federal program, they or their supervisor must sign a certification to that fact semiannually
- If the employee spends less than 100 percent of their time serving one federal program but spends all of their time in a single cost objective, then they qualify for use of the semi certification (a special education teacher that is part federally funded and part state funded is a likely example).
- If the employee serves 100 percent in a “school wide” building, then they qualify for use of the semi certification.

- If the employee spends time in more than one federal program or in both federal and non-federal activities (but not the same cost objective), they must provide “contemporaneous records” of the time allocation that shows what was actually done. Lesson plans can be used but must be signed by the teacher and edited to show what was done that day. The method used is at the District’s discretion but must be sufficient for a third party to conclude that the allocation is proper.

We recommend that the District formalize the approval process to make sure that you are in full compliance with the requirement.

New Auditing Pronouncements

Statement on Auditing Standards 103 - Audit Documentation - In December 2005, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 96. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending June 30, 2007 for school districts).

This standard clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It prescribes the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor’s report and creates a “lock down” date for the audit file.

The substantive implication of this new standard is that it is likely that auditors will be more specific in their requests for information from the District and will require the District to be well prepared for audit prior to the start of the year-end field work.

Statement on Auditing Standards 112 - Communication of Internal Control Related Matters Noted in an Audit - During May 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 60. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending June 30, 2007 for school districts).

This standard establishes requirements and provides guidance to enhance the auditor’s communication responsibility to the audit committee, if one exists, or the Board of Education concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term “reportable condition”), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or the Board of Education in writing and will be made no later than 60 days following the release date of the auditor’s report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The substantive implication of this new standard is that it is likely that auditors will be required to officially report on more internal control related items than in the past. This is because the new audit standard lowers the threshold that is used to determine if a control deficiency must be officially reported.

Statement on Auditing Standards 104 to 111 - The Risk Assessment Standards - The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that will substantially affect the auditing process. The effective date for district audits will be for the audit of the financial statements for after the year ending June 30, 2008. The ramifications for the audit process are substantial. At this point, the specific impact of these standards on our district auditing process is being evaluated and we will continue to keep you apprised of the status.

Government Auditing Standards Exposure Draft (2006 Revision) - The Government Accountability Office (GAO) is finalizing its revisions to Government Auditing Standards (the Yellow Book). These revisions will be issued before the end of 2006. All school districts in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. These Yellow Book changes will be effective for the June 30, 2007 school district audits. The planned changes are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts of the changes include:

- Likely increased number of findings reported in the single audit report due to a lowered threshold of what must be reported
- Incorporation of audit documentation requirements similar to SAS 103
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

Once the changes are final, we will provide the District with specific information on how the changes will affect the audit process.

Uniform Budgeting & Accounting Act

Over 25 years ago, the State enacted P.A. 621, The Uniform Budgeting & Accounting Act. This act requires, among other things, that budgets be adopted for the General Fund and Special Revenue Funds. In addition, the act requires that budgets be amended during the year if actual expenditures will exceed the amount budgeted. The penalty for failure to comply with this act can be recovery of the "unauthorized" expenditures from district board members and administrators.

Recently, the Department of Education (the "Department") announced a program to monitor district compliance with P.A. 621. The Department will begin by reviewing the June 30, 2005 annual audited financial statements and identify any district or public school academy whose total expenditures exceed their budget by more than 1 percent. In addition, the same test will be applied to other financing sources (uses).

If your District receives a violation notice from the Department of Education, you will have two weeks to provide the Department with information regarding the District's procedures to detect and prevent violations of the act. The Department will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General's office for further consideration.

Obviously, as you go forward, it is strongly advised that the board and administration review the District's policies and procedures in this area in order to prevent violations. We should note that enforcement could become even more stringent if the Department were to adopt the same violation criteria for revenues - something they are considering. The key factor in all this new enforcement effort is an emphasis on the board's responsibility to approve all expenditures via the budget process and avoid any deficit fund balance.

We would like to show our appreciation to David VanderWall and the central administration office for their preparation and assistance during the audit. Their pride and dedication to the District is made clear in the excellence of their work.

We would also like to thank the Board of Education for providing us the continued opportunity to serve as auditors for the District. We look forward to maintaining our relationship with the District and hope to meet and exceed your expectations as auditors and consultants. Please feel free to contact us at any time to discuss the above topics or additional services.

Very truly yours,

Plante & Moran, PLLC



Robert J. Brazda, CPA
Partner